Public Resources Advisory Group

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MEMORANDUM TO: Virginia Department of Transportation

FROM: Public Resources Advisory Group ("PRAG")

SUBJECT: Review of Detailed Proposals for I-95/I-395 Corridor

DATE: September 9, 2005

Introduction

Pursuant to the Commonwealth of Virginia Public Private Transportation Act of 1995, the Virginia Department of Transportation ("VDOT") received an unsolicited proposal for the development, design, financing, construction, operation and maintenance of the I-95/I-395 Corridor from 95 Express, LLC in September 2003 and a competing proposal from Fluor-Transurban in March 2004. The proposals were advanced to the next phase and both teams submitted detailed proposals in May 2005. Both proposals involve expanding the HOV system on I-95 to three lanes and extending the HOV system so that it traverses from Washington, D.C. to Spotsylvania County, Virginia. Both proposals involve tolling vehicles with only one or two passengers and allowing 3 or more passenger vehicles to travel along the corridor for free. Low occupancy vehicles will have the option to use the HOV/HOT lanes for a fee based upon time of day pricing. In addition, dynamic pricing will be used when necessary to control the traffic flow in the HOV/HOT lanes. Both proposals involve an all electronic toll collection system. The 95-Express team proposal involves tax-exempt toll revenue bonds and a subordinate TIFIA loan. The Fluor-Transurban proposal offers two alternatives: (i) tax-exempt toll revenue bonds with a TIFIA loan and subordinate investment by Fluor-Transurban or (ii) a concession agreement. In both proposals, the tax-exempt toll revenues bonds will be secured by a pledge of toll revenues from the tolls charged from the HOT lanes portion of the 95 Express project. Under the concession agreement scenario, there would not be tax-exempt toll revenue bonds, but there would be senior debt in the form of bank debt, which would have first claim on net revenues.

Presented below is PRAG's preliminary analysis of the proposals from a financial perspective. The review is based on the conceptual and detailed proposals and publicly available information, such as Securities and Exchange Commission ("SEC") filings and investor and other information found on project team members' websites. Transurban does not file with the SEC.

I. 95 Express Team Proposal

A. The Project

The 95 Express Team project includes expanding the existing two lane HOV facility to three HOV/HOT lanes, extending the HOV/HOT lanes further south from Route 234 to Route 17, adding a fourth general purpose lane southbound from Route 3 to Route 1 and northbound from Route 1 to Route 17, providing an initial investment for the purchase of additional rail cars for the Virginia Railway Express rail system, providing additional park and ride lot capacity and constructing Phase 8 of the Springfield Interchange with a connection of HOV/HOT lanes to the Capital Beltway. The proposal assumes the Comprehensive Agreement will be signed in March 2006 and the project will be completed in September 2011. The 95 Express team estimates that the project will cost $815,975,000, based on year of expenditure dollars with a 3 percent escalation factor for materials and 4 percent per year for labor and equipment. The 95 Express team proposes to develop, design and construct the improvements in five phases.

The project team will be led by Clark Construction Group, LLC and Shirley Contracting Company, LLC. Other team members include Wilbur Smith & Associates and Cofiroute USA, both of whom are responsible for the toll facility design and operations. Other members of the team include CH2M HILL, Dewberry, VHB, English Construction, APAC Atlantic, Inc., Commonwealth Service Company, Citigroup, McGuireWoods Consulting and Trichord Industries.

B. Plan of Finance

The following table shows a breakdown of the project cost.

95 Express Team
Estimated Project Costs
($ millions)

Phase A – E, Design and Construction	$545.250
Tolling Systems, Design and Construction	45.750
Sound Barriers, Design and Construction	10.060
Development and Construction Management, CEI, Environmental Mitigation	102.565
Right of Way Acquisition	12.350
Utility Relocation	5.000
Allowance for Washington D.C. Connection	15.000
Commuter Park and Ride Lots Capital Improvement	30.000
Virginia Railway Express Capital Improvements	30.000
Project Contingency	20.000
TOTAL	**$815.975**

The project cost includes the cost for constructing Phase 8 of the Springfield Interchange, which involves the connection of HOV/HOT lanes to the Capital Beltway and is a part of the Six Year Improvement Plan ("SYIP"). The 95 Express Team states that the $85 million currently allocated to the Springfield Interchange in the SYIP can be used at the discretion of the Commonwealth for other transportation needs. Additionally, the project costs include a contingency of $20 million of which $4 to $5 million may be used to reimburse VDOT for oversight and administrative costs. The contingency is also available to address hazardous materials, contaminated or unsuitable soils and utilities.

The 95 Express team proposes to finance the project with tax-exempt toll revenue bonds and a TIFIA loan from the Federal Government. At this point, they do not recommend a concession arrangement since it would "unnecessarily utilize toll revenues" that could be used to fund other transportation needs. However, if the investment grade traffic and revenue study indicates that a private equity investment is needed, the 95 Express team states that a structure and expected rate of return will be developed. Neither CTB funds nor any other public funds are sought.

The 95 Express team assumes two separate financings (March 2007 and March 2008), based on projected timing of environmental approvals and projected cash needs for construction. Phases A, B and D will be financed with proceeds from the first financing and Phases C and E will be financed with proceeds from the second financing. The second financing is assumed to be bond anticipation notes ("BANs") with interest capitalized and the TIFIA loan will be drawn down to redeem the BANs at maturity in 2012. The team proposes to establish a 63-20 non-profit organization or use another entity that would have the authority to issue bonds and enter into a TIFIA secured loan agreement. The bonds would be fully non-recourse to the Commonwealth, its agencies and its political subdivisions. The following table summarizes the sources and uses.

95 Express Team
Sources and Uses of Funds
($ millions)

Estimated Sources	
Par Amount of Bonds	$681.365
Par Amount of TIFIA (BANs)	258.540
Premium Received from BANs	17.035
Investment Earnings in Project Fund	40.842
TOTAL ESTIMATED SOURCES	**$997.782**
Estimated Uses	
Project Fund	$815.975
Debt Service Reserve Fund Deposit	57.339
Capitalized Interest Fund Deposit	72.209
Bond Insurance Premiums	27.123
All-in Issuance Costs	25.136
TOTAL ESTIMATED USES	**$997.782**

The bonds will be secured by a pledge of net toll revenues. Under the net pledge scenario, debt service will be paid after administrative and trustee fees, toll collection and operating expenses and incremental recurring maintenance costs associated with the new HOV/HOT lanes added by this project. The TIFIA loan will have a subordinate lien on net toll revenues. After payment of debt service, excess revenues can be used to fund toll equipment replacement, repair and rehabilitation of HOV/HOT assets and other needs that can be negotiated during the drafting of the Comprehensive Agreement and after discussions with the rating agencies. Roadway maintenance of the tolled and non-tolled roadway, ramps and structures will be remain the responsibility of VDOT.

The two series of bonds will be structured with a 40 year final maturity and target 1.75 times debt service coverage for the toll revenue bonds and 1.25 times overall coverage with the TIFIA loan. The 95 Express team believes that investment grade ratings can be obtained with the 1.75 times coverage and bond insurance is also obtainable. Based on the numbers provided, the team is estimating a bond insurance premium of about 150 basis points. The numbers are based on interest rates as of May 24, 2005.

During the construction period of Phases C and E through 2011, the 95 Express team projects that $25.3 million of excess toll revenues will be received and was not included in the financing of the project but can be used to pay early completion incentives, fund a rate stabilization reserve or fund additional improvements to the I-95 Corridor. Over the life of the bonds (40 years), it is projected that there could be an extra $450 million to fund additional transportation and transit improvements to the I-95 Corridor.

C. <u>Traffic and Revenue Assumptions</u>

The 95 Express proposal envisions tolling vehicles with only one or two passengers that choose to use the tolled lanes and allowing 3 or more passenger vehicles and buses to travel along the corridor for free. A variable toll structure is assumed based on time of day. Dynamic Pricing will also be employed when necessary to regulate traffic flow. With Dynamic Pricing, when traffic volumes necessitate, the toll rates will be adjusted every 6 to 8 minutes to ensure an acceptable level of service within the HOV/HOT lanes, regardless of the congestion levels on the general purpose lanes. Drivers will be notified of the toll rate before they enter the system and the per-mile toll rate will be maintained for the entire trip in the HOV/HOT lanes. The toll road will be an all-electronic toll collection ("ETC") system, compatible with Smart Tag/E-Z Pass.

The table below summarizes the assumptions made for the preliminary traffic and revenue analysis. The assumed per mile toll rates used are based on numerous studies conducted by Wilbur Smith & Associates, Inc. for other potential and existing HOV/HOT lane facilities. A discussion on assumptions for traffic estimates is not provided in the proposal.

95 Express Team
Traffic and Revenue Assumptions

Per Mile Toll Rates	2008	2010	2015	2020
I-395: Peak	$.25	$.30	$.35	$.40
Shoulder	$.20	$.20	$.25	$.30
Off-Peak	$.10	$.10	$.10	$.10
I-95N: Peak	$.25	$.30	$.35	$.40
Shoulder	$.20	$.20	$.25	$.30
Off-Peak	$.10	$.10	$.10	$.10
I-95S: Peak		$.20	$.20	$.25
Shoulder		$.15	$.15	$.20
Off-Peak		$.075	$.075	$.10
Annual Traffic Growth	Initial ramp-up for each of the three sections over the first 2 years.			
I-95North	Yr. 3-Yr. 8: **10.4%**, Yr. 9-Yr.13: **2.7%**, After Yr. 13: **1.5%**			
I-95 South	Yr. 3-Yr.6: **23.7%**, Yr. 7-11:**16.6%,** After Yr. 11: **1.5%**			
I-395	Yr. 3-Yr. 6: **3.0%**, Yr.7-Yr. 11: **2.2%**, After Yr.11: **1.5%**			
Toll Revenue Growth	Initial ramp-up for each of the three sections over the first 2 years.			
I-95North	Yr. 3-Yr. 8: **11.6%**, Yr. 9-Yr.13: 4**.6%**, After Yr. 13: **2.5%**			
I-95 South	Yr. 3-Yr.5: **26.6%**, Yr. 6-10:**20.6%,** After Yr. 10: **2.5%**			
I-395	Yr. 3-Yr. 6: **5.8%**, Yr.7-Yr. 11: **4.5%**, After Yr.11: **2.5%**			
Toll Operations & Maintenance, Administrative Fees	2.50% Annual Growth			

D. Financial Strength of the Proposers

Clark Construction Group, LLC, is a majority-owned subsidiary of Clark Enterprises, Inc., a privately held company. Shirley Contracting Company, LLC is an independent operating subsidiary of the Clark Construction Group, LLC. Clark Construction Group, LLC is a privately held company. The company has requested that the details of the financial evaluation of the company's financial strength not be released to the public in accordance with §2.2-3705.6 of the *Code of Virginia*.

E. Allocation of Risks and Responsibilities

The 95 Express team proposes to finance the project with tax-exempt toll revenue bonds and a TIFIA loan, both of which are secured by a net revenue pledge of toll revenues. The tax-exempt toll revenue bonds comprise approximately 73 percent of the financing and the TIFIA loan comprises 27 percent. While projected toll revenues cover the tax-exempt toll revenue bond debt service 1.75 times and the TIFIA loan 1.25 time, the preliminary plan of finance has the debt structured with ascending debt service to match a revenue base that is assumed to grow over time. This is typical for toll revenue bonds. However, a more detailed traffic and revenue analysis will be needed to validate that the tolls on the HOV/HOT lanes will generate sufficient revenues and the demand elasticity to support revenues growing over time. If the study shows that tolling will not support the proposed financing, there is some adjustment that can be made since the financing assumes 1.25 times coverage on the TIFIA loan, which is higher than the 1.10 times coverage required by the Federal government. Additionally, the TIFIA loan comprises 27 percent of the financing and the program allows for TIFIA comprising up to 33 percent of the financing. If the traffic and revenue study shows that tolling cannot support the project as outlined in the proposal, the adjustments to the TIFIA portion alone may not be sufficient to make the project feasible and other funding sources will need to be identified or the project scope reduced.

Assuming bonds are issued, the risk that actual toll revenues are not sufficient to pay debt service is borne by the purchasers of the toll revenue bonds and by the Federal government with respect to the TIFIA loan. The Commonwealth and VDOT will not have any financial or legal obligation but obviously would only want to sponsor a project with a high probability of success.

The 95 Express team states that the team anticipates providing a fixed price for the design and construction of the project and also anticipates guaranteeing a completion date for the project. The proposal does not state which members of the project team will be guaranteeing the obligations of the project team. For purposes of this analysis we have assumed Clark Construction Group, LLC will be providing the guarantee of performance since some financial information was provided for that entity. The team proposes that VDOT would provide incentives for early completion and the team would pay liquidated damages for missing the guaranteed completion date. The payment of an early completion incentive would be paid from excess toll revenues to be collected before the scheduled completion date. Liquidated damages would be the responsibility of the team, but the member or members of the team bearing the ultimate responsibility is not stated. In addition, the team is also at risk for the pre-development costs, which it estimates to be in the range of $5 to $10 million. As mentioned previously, the project contingency includes $4 to $5 million to reimburse VDOT for its oversight and administrative costs during the planning, permitting, oversight and quality assurance process.

The proposal states that Clark and Shirley will provide development and construction services on the project and will provide or cause others to provide 100 percent payment and performance bonds on a phased basis that guarantee construction and obligations including a five year warranty obligation. A letter from the sureties is provided and states that the 95 Express LLC has a bonding capacity of an aggregate of $2.5 billion. Each of the designers will also carry professional errors and omissions insurance coverage and the 95 Express team will also carry professional errors and omissions insurance specifically for the Project.

The proposal states that Cofiroute USA will be assuming the risks and responsibilities for operating and maintaining the toll collection system although payment of toll operating and maintenance costs are paid from toll revenues before debt service. VDOT would assume responsibility for maintenance of the roadway and the collector-distributor roads. The incremental cost of recurring maintenance will be funded prior to debt service and nonrecurring rehabilitation and repair is to be funded after debt service.

F. <u>95 Express, LLC Appraisal</u>

Financial Strength of the Proposer. Clark Construction Group, LLC is a privately held company. The company has requested that the details of the financial evaluation of the company's financial strength not be released to the public in accordance with §2.2-3705.6 of the *Code of Virginia*.

Plan of Finance. The plan of finance calls for issuance of tax-exempt toll revenue bonds and securing a TIFIA loan through the Federal government. The plan of finance is based on preliminary revenue projections that show a growing revenue base over time. Between 2010 and 2015, revenue is projected to grow annually between 10 percent and 15 percent, followed by 5 years of 6 percent annual growth and then 2.5 percent each year starting in 2021 through the final maturity of the bonds of 2046. The need for an investment grade traffic and revenue report to support the assumptions on the usage of HOV/HOT lanes is vital to the success of the financing plan. In addition, since revenue is expected to increase each year by 2.5 percent starting in 2021, the proposal does not address the capacity of the roadway to meet traffic projections.

The plan of finance includes funding of Phase 8 of the Springfield Interchange with proceeds of the bonds issued for the 95 Express project. This will allow VDOT to use the $85 million that was programmed in the SYIP for the Springfield Interchange for other projects. The plan of finance is based on interest rates as of May 24, 2005. Interest rates are near historical lows and the financing is expected to occur in 2007 and 2008. We would recommend adding some interest rate sensitivity to determine how much bonding capacity can fluctuate and if toll revenues would be able to support the project.

Allocation of Risks and Responsibilities. The 95 Express team is at risk for funds spent during the pre-development stage, which they estimate to be about $5 to $10 million. The 95 Express team will also be taking the fixed price and fixed completion date risk, providing liquidated damages if these obligations cannot be met. However, the proposal does not specify what entity will be guaranteeing the obligations of the project team. VDOT should have the 95 Express team explicitly state the entity providing the guarantee. No other project team funds are at risk. VDOT is also at risk for its expenses on the administration and oversight during the development process. Revenue risk is borne by the bondholders and the Federal government. The debt would be structured as non-recourse debt to the Commonwealth and VDOT.

A letter from the sureties is provided in the proposal, stating that the 95 Express LLC has a bonding capacity of an aggregate of $2.5 billion. We recommend that VDOT obtain payment and performance bonds for 100 percent of the project if it is indeed available.

II. Fluor-Transurban Proposal

A. The Project

The Fluor-Transurban project involves adding a third lane to the existing HOV system in the I-95/I-395 Corridor and extending the BRT/HOT/HOV system an additional 25 miles south to Massaponax in Spotsylvania County. Fluor-Transurban states that they will be able to integrate this HOV/HOT system with the Capital Beltway HOT Lanes project that they are currently working on. The project also involves a BRT component that will ultimately provide transit service to many areas that are underserved. In one financing alternative a total of $510 million is allocated to transit. Fluor-Transurban does not propose to fund Phase 8 of the Springfield Interchange, which is expected to be paid for as provided in VDOT's six year SYIP. The proposal assumes that construction will start in May 2007 and the full project will be completed in March 2011. Fluor-Transurban estimates that the project will cost $913.4 million based on year of expenditure dollars.

The project team includes Fluor Virginia in partnership with Transurban USA. Fluor will act as developer/design-build contractor/minority investor and Transurban will function as developer/operator/major investor. Other team members include HNTB, Vollmer Associates LLP, Bear Stearns, Reed Smith, Edelman, Branch Highways, LANE, Tidewater Skanska and VMS.

B. Plan of Finance

Fluor-Transurban estimates that the project will cost $913.4 million, based on year of expenditure dollars. The escalation factor for bridge and structure work is 5 percent and for road and paving work, 3 percent. The following table provides a breakdown of the project cost.

Fluor-Transurban
Estimated Project Cost
($ millions)

	Phase I Improvements	Phase II Improvements	Total
Traffic Control/MOT	$10.0	$2.0	$12.0
Structures	203.0	70.0	273.0
Clearing and Grubbing	1.3	0.6	1.9
Earthwork	82.4	31.1	113.5
Drainage	14.0	12.0	26.0
Erosion Control	5.0	2.0	7.0
Pavement	55.0	20.0	75.0
Guardrails/Barriers	20.0	6.0	26.0
Striping, Signage, Lighting, Misc.	38.0	9.0	47.0
Bus Stations & Stops, Park and Ride Lots	58.0	7.0	65.0
Sound Walls	26.0	16.0	42.0
Utility Relocations	11.0	3.0	14.0
Toll Systems	41.0	9.0	50.0
Design, Program Management, Quality Management	112.0	40.0	152.0
Right of Way	--	9.0	9.0
Total Project Cost	**$676.7**	**$236.7**	**$913.4**

The project cost does not include a contingency for such items as overruns in right of way allowance, department caused delays, overruns in VDOT oversight budget, force majeure events not covered by insurance and safety directed changed in accordance with new standards. The costs also do not include consideration for hazardous materials abatement, contaminated soils and historical/archaeological site resolution. The cost for such items will be addressed during the negotiations. Fluor-Transurban proposes to add a contingency once the financing method is determined.

Fluor-Transurban provides two alternative financing methods: (i) tax-exempt public private partnership and (ii) concession with VDOT participation. Both structures would be non-recourse to the Commonwealth and VDOT and provide for all operating and maintenance expenses of the roadway. The project cost includes reimbursement of $20 million representing funds spent at-risk during the development phase and a risk compensation. In addition, both structures allow for funding for transit. In the tax-exempt structure, Fluor-Transurban estimates that $510 million could be available for transit through annual subsidies over the life of the bonds, and in the concession approach, funding for transit could be derived from the upfront concession fee. The following table compares sources and uses under the two financing structures with an assumed delivery date of July 1, 2007.

Fluor-Transurban
Comparison of Sources and Uses of Funds
($ millions)

	Tax-Exempt Structure		Concession Structure	
Sources of Funds				
Senior Toll Revenue Bonds	$575.6	53.1%	$859.0	64.0%
TIFIA	305.5	28.2%	157.3	11.7%
Fluor-Transurban Investment	135.0	12.5%	270.0	20.1%
Investment Earnings during Construction	67.7	6.3%	55.3	4.1%
Total Sources	$1,083.8		$1,341.6	
Uses of Funds				
Project Costs	$933.4	86.1%	$933.4	69.6%
Concession Fee	0.0	0.0%	251.7	18.8%
Capitalized Interest	38.9	3.6%	114.2	8.5%
TPOF Repayment	10.0	0.9%	10.0	0.8%
Debt Service Reserve	57.6	5.3%	0.0	0.0%
Financing Costs	43.9	4.1%	32.2	2.4%
Total Uses	$1,083.8		$1,341.6	

Tax-Exempt Structure: In the tax-exempt structure, Fluor-Transurban proposes using a 63-20 corporation to serve as issuer of the debt. Toll revenue bonds, a TIFIA loan, an investment by Fluor-Transurban and investment earnings during construction will provide the sources of funding. With a tax-exempt structure, the purchase of subordinate bonds will represent the equity investment by Fluor-Transurban. For Federal tax purposes, the subordinate bonds cannot be considered equity and the purchase of such bonds must meet the criteria set forth by bond counsel. Transurban will be the majority investor and Fluor will be the minority investor.

The senior toll revenue bonds would be issued using current interest bonds and capital appreciation bonds and would be secured by net toll revenues after payment of toll system and roadway operating and maintenance expenses. Payment on the TIFIA loan would come next. The plan of finance currently has the TIFIA loan at the maximum of 33 percent of project costs. Before the payment on the subordinate bonds, representing the Fluor-Transurban investment, Fluor-Transurban proposes to fund an annual transit subsidy first followed by payment on the subordinated bonds to Fluor-Transurban. A major maintenance reserve will be funded next and then any excess revenues flowing to VDOT. A loan from the Transportation Partnership opportunity fund will be sought to fund environmental approval activities and paid back from bond proceeds.

The senior toll revenue bonds are structured with debt service coverage of 2.75 times, based on market interest rates for insured transactions at the time the proposal was prepared and the TIFIA loan is structured to have debt service coverage of 1.67 times. The average interest rate for current interest bonds is projected to be 4.29 percent, for senior capital appreciation bonds 4.82 percent and for the TIFIA loan 4.50 percent. The interest rate on the capitalized interest fund is assumed to be 3.75 percent and 4.50 percent on the debt service reserve fund. The bond insurance premium is estimated to be 150 basis points. The subordinate bonds, representing the Fluor-Transurban investment, is expected to be structured to achieve an equivalent of a 12.5 percent return.

Concession Structure: Under the concession structure, Fluor-Transurban proposes to negotiate a 60-year lease agreement that would establish the concession company's (to be owned by Fluor and Transurban) responsibility to finance, construct, operate, maintain and hand back to VDOT at the end of the concession term the I-95/I-395 Corridor project. VDOT would retain legal title to the asset. Fluor-Transurban believes the project can be financed as a concession and projects a concession fee of $250 million to be paid to VDOT at financial close. VDOT can also choose to be paid over time. The proposal does not explain how the $250 million concession fee is derived. Fluor-Transurban has assumed that the lease and concession structure will assign all risks of operation to them and be for a term that will allow it to qualify for depreciation for Federal income tax purposes. Fluor-Transurban has assumed a lease term of 60 years will result in the desired tax treatment. Under this concession structure, the expected return on equity is 12.5 percent and Fluor-Transurban proposes to share any excess revenues with VDOT. The proposal does not state how the excess revenues will be shared.

The senior debt in the concession structure is assumed to be bank debt, although Fluor-Transurban may elect to use taxable senior bonds. The senior bank debt is structured to have 1.30 times debt service coverage in 2014, after the ramp up period, and escalating over time to 2.84 times in 2024 and 4.00 in 2052 versus the constant 2.75 times senior coverage in the tax-exempt case from 2013 to 2052. The bank debt can have a term of up to 35 years with the interest rate equal to LIBOR plus 150 basis points. The interest rate on TIFIA is assumed to be 4.50 percent with coverage averaging 1.33 times over the first five years of the repayment period.

C. <u>Traffic and Revenue Assumptions</u>

Based on the preliminary traffic and revenue study prepared by Vollmer Associates and assuming the HOV lanes will be free for vehicles with 3 or more passengers while all other vehicles will pay a toll for using the HOV lanes, which will vary by hour, Fluor-Transurban estimates peak tolls in the year of the opening will range from 15 to 28 cents per mile with the more congested sections of the facility needing higher tolls to regulate traffic flow. During off peak hours, tolls will be lower and is not expected to exceed 20 cents per mile. Toll rates will be subject to dynamic pricing to maintain the target levels of service. Fluor-Transurban estimates that by 2015 the average trip will be 5.54 miles and incur a toll of $1.50 or about 27 cents per mile.

Vollmer developed two scenarios, the Base Case and the Bank Case, with different assumptions on value of time, toll rates, annualization factors, and length of the ramp up period. The projected toll revenues in the Bank Case are used for the concession structure. However, for the tax-exempt structure, different toll revenues than the Base Case are used for the financing plan and are generally more conservative than the Bank Case after the ramp up period, but we do not know the basis for these projections. In the Bank Case, Vollmer assumes an increase in the value of time that is greater than the inflation rate, toll rates are 10 percent higher than the Base Case during the peak period, the annualization factor is greater and the reduction for ramp up is less than the Base Case. The use of two different toll revenue streams for the two cases is not explained. The table below summarizes the assumption on growth in toll revenues for the two structures based on the backup provided for each structure

	Tax-Exempt Structure	**Concession Structure**
Toll Revenue Average Annual Growth	2010-2014: 25.7% 2015-2030: 5.2% 2030-2035: 5.0% After 2035: 4.0%	2010-2014: 29.8% 2015-2030: 6.5% 2030-2035: 5.0% After 2035: 4.0%

Operating and maintenance expenses are different for each case with different annual growth rates. For example, in 2066, under the tax exempt structure, operating and maintenance expenses are estimated to be $176.41 million, which are approximately the same and the 2067 figure of $176.38 million. However, in the concession structure, the 2066 operating and maintenance expense is $127.8 million and the 2067 figure is $65.9 million. The assumptions for these expenses and an explanation of why different operating and maintenance expenses are used in each case are not provided, but would be helpful in understanding the net toll revenue numbers.

D. Financial Strength of Proposers

Fluor Virginia

Fluor's responsibilities will be backed by a corporate guarantee from Fluor Corporation. As such, the financial strength of Fluor Corporation is discussed, based on information obtained from publicly available sources.

Fluor Corporation ("FC") is organized into five main operating segments: (i) Oil & Gas, (ii) Industrial and Infrastructure, (iii) Power, (iv) Global Services and (v) Government Services. The table on the following page presents selected financial highlights for FC, based on information supplied with the proposal and other publicly available information available information. Over the last three years, FC's total revenues have averaged approximately $9.38 billion. In 2004, FC reported net income of $187 million and shows $82 million of cash being used by (rather derived from) operations. While net income was higher by $29 million in 2004 as compared to 2003, cash flow from operations has increased by $223 million. Management reports that the change in cash flow from operations between 2003 and 2004 was in large part due to increase in operating liabilities and decrease in operating assets. For the first quarter of its current fiscal year, FC reported total revenues of $2.86 billion and net income of $47 million. FC also shows $37 million of cash flow from operations, which was primarily due to changes in operating assets and liabilities.

Fluor Corporation Financial Highlights ($Millions)

	As of: 3/31/05 (1)	**As of: 12/31/04**	**As of: 12/31/03**	**As of: 12/31/02**
Total Revenue	$2,860	$9,380	$8,806	$9,959
Net Income	$47	$187	$158	$164
Cash Flow from Operations	$37	($82)	($304)	$196
Cash and Equivalents	$643	$605	$497	$753
Billed and Unbilled Receivables	$786	$761	$628	$953
Total Current Assets	$ 2,943	$2,723	$2,205	$1,924
Long-Term Assets	$1,265	$1,246	$1,236	$1,201
Total Assets	$ 4,208	$3,970	$3,441	$3,142
Current Liabilities	$1,923	$1,764	$1,821	$1,756
Long-term Debt	$348	$348	$45	$18
Other Long-term Liabilities	$506	$522	$494	$485
Total Liabilities	$2,777	$2,634	$2,360	$2,258
Stockholders' Equity	$1,431	$1336	$1,082	$884
Current Ratio	1.53x	1.54x	1.21x	1.11 x
Backlog	$15,416	$14,766	$10,607	$9,709
Stock Price, as of 7/5/2005	$ 57.99			
Market Capitalization	$5,019			

Notes:
(1) For the three-month period ending 3/31/2005.

FC reports total assets of approximately $4.2 billion as of March 31, 2005, with approximately $3 billion of current assets. Its current assets exceeded current liabilities 1.53 times. The company maintains $821 million in committed and uncommitted lines of credit to support letters of credit as at March 31, 2005. The company has posted surety bonds on state and local government projects to guarantee its performance on contracts. FC's liquidity is provided by cash generated from Operations, advance billings on contracts in progress and access to financial markets by raising shortterm borrowings. Also as of that date, FC reported a backlog of approximately $15.4 billion, up from $14.7 billion at the end of 2004.

FC reports $348 million in long-term debt as of March 31, 2005. Currently, FC's long-term debt is rated A3/BBB+/A- from Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Stockholders' equity was $1.4 billion as of March 31, 2005. FC's stock is traded on the NYSE and its stock price as of July 5 was $57.99 per share near its 52-week high of $63.94 per share. Based on outstanding shares of approximately 86.55 million, its current market capitalization is over $5.0 billion.

Transurban

Transurban Limited will provide a guaranty for all Transurban operating and maintenance obligations and Transurban Holdings will guarantee all investment obligations. Transurban Limited is one of three entities of the Transurban Group, an Australian based company that owns, operates and develops electronic toll roads and intelligent transport systems. Transurban Group is a triple stapled security. Stapled securities are made up of securities in two or more separate entities and they cannot be traded separately. Transurban Group is comprised of shares in Transurban Limited, Transurban Holdings Limited and Transurban Holdings Trust. Transurban Group's major asset is CityLink, a 22-kilometer fully electronic toll road in Melbourne, Australia, using e-Tags, which are detected at tolling points by sensors in overhead gantries. Transurban Group also reports that it has a 40 percent stake in the 39-kilometer Westlink M7 in Sydney, Australia, which will be completed in 2006 and operated by Transurban, and a stake in Hills Motorway (M2) in Sydney. Transurban Group is rated A3/A-/A- by Moody's, Standard & Poor's and Fitch, respectively.

The table below presents selected financial highlights for Transurban Group, Transurban Limited and Transurban Holdings Limited, based on the annual report for the year ended June 30, 2004. These figures are in Australian dollars. (The current exchange rate is approximately 1.00 USD equals 1.35 AUD.) VDOT should request any interim financial statements.

(Australian $ Millions)	Transurban Group*		Transurban Limited		Transurban Holdings Limited	
	As of: 6/30/2004	As of: 6/30/2003	As of: 6/30/2004	As of: 6/30/2003	As of: 6/30/2004	As of: 6/30/2003
Revenue From Ordinary Activities	$467.7	$410.9	$37.7	$27.9	$530.7	$488.7
Profit/(Loss) from Ordinary Activities afer Tax	($61.5)	($83.6)	$1.2	$0.9	($111.7)	($128.2)
Cash Flow from Operations	$138.2	$95.3	$3.7	($4.0)	$245.5	$228.8
Cash and Equivalents	$207.5	$172.3	$6.5	$1.0	$141.1	$130.1
Receivables	$25.8	$24.9	$2.3	$2.6	$21.8	$44.0
Total Current Assets	$240.1	$199.8	$13.7	$11.1	$210.9	$183.7
Long-Term Assets	$4,135.6	$4,155.0	$47.7	$30.5	$4,632.7	$4,655.4
Total Assets	$4,375.7	$4,354.8	$61.3	$41.6	$4,843.6	$4,839.1
Current Liabilities	$118.6	$95.6	$27.0	$36.6	$82.1	$62.2
Interest Bearing Liabilities	$2,210.2	$2,131.9	$0.0	$0.0	$3,259.2	$3,200.8
Other Long-term Liabilities	$209.7	$174.8	$32.2	$4.1	$1,785.0	$1,747.3
Total Liabilities	$2,538.5	$2,402.3	$59.2	$40.7	$5,126.3	$5,010.2
Total Equity	$1,837.2	$1,952.5	$2.2	$0.9	($282.7)	($171.1)
Current Ratio	2.03	2.09	0.51	0.30	2.57	2.96

** Transurban Group financials represent an aggregate of its three entities. Inter-entity transactions and balances were netted out for purposes of the combined financial reporting.*

Transurban Limited will be the responsible entity for operating and maintaining the facility, is a small component of Transurban Group. As of June 30, 2004, Transurban Limited had total equity of $2.2 million AUD while Transurban Group reported over $1.8 billion AUD. Transurban Limited reports only $37.7 million AUD in revenues, $3.7 million AUD in cash flow from operations and $61.3 million AUD in assets (compared to $467.7 million AUD of revenues, $138.2 million AUD of cash flow from operations and $4.4 billion AUD of assets for Transurban Group).

Transurban proposes that the investment will be the obligation of Transurban Holdings Limited. Transurban Holdings Limited holds the assets and a liability associated with CityLink and thus, has significant long-term liabilities. However, it does receive strong and predictable cash flows from CityLink.

E. Allocation of Risks and Responsibilities

Fluor will provide warranties and a guaranty of all design, construction and completion, providing a fixed price and fixed completion date. Fluor's obligations will include the liability for liquidated damages and be guaranteed by Fluor Corp. Transurban will be responsible for operations, maintenance, customer service and business and investment related risks. Transurban Limited will provide a guaranty for all Transurban operating and maintenance obligations and Transurban Holdings will guarantee all investment obligations. There is no joint and several obligation with Fluor and Transurban. VDOT will take primary responsibility for the environmental approvals and representing the interests of the Commonwealth and traveling public. In response to the question regarding evidence of surety, Fluor-Transurban states that only the largest of the top 10 sureties would be willing to provide bonds up to $250 million for a project of this size and duration and it would not be possible to have smaller bonds for the four separate sections of the project.

Fluor and Transurban as equity or debt investors, bondholders, the Federal government through the TIFIA program and potential credit enhancers bear the risk that project revenues may not be sufficient to pay debt service or achieve target returns on equity. VDOT and the Commonwealth have no financial obligation to any of these investors in the two structures presented by Fluor-Transurban. An investment grade traffic and revenue study is needed to validate that sufficient revenues will be available to meet debt service requirements and return on equity targets. In the tax-exempt structure, the plan of finance is structured with 2.75 times coverage for the senior debt and 1.67 times with the TIFIA loan. High coverage levels help to mitigate this revenue risk.

Under the concession structure VDOT can potentially receive a $250 million concession fee upfront or an equivalent amount overtime. However, VDOT would be losing some flexibility in using any excess revenues and losing control over this asset during the concession period. In addition with a return on equity of 12.5 percent, VDOT's lowest cost of funds would be a tax-exempt structure if the investment grade traffic and revenue study shows that toll revenues can support that structure. In the concession structure, the senior debt is structured to have 1.30 times coverage in 2014, which is low, but coverage generally increases each year, reaching 2.84 times in 2024 and 4.00 times in 2052.

F. Appraisal

Financial Strength of Fluor

Fluor Virginia Inc. will provide warranties and a guarantee for all design, construction and completion and the provision of a corporate guarantee from Fluor Corporation, the ultimate parent of Fluor Virginia, is a positive security feature. Fluor Corporation is reasonably strong financially and has adequate resources to back Fluor Virginia's performance. We suggest VDOT obtain payment and performance bonds for the maximum amount Fluor-Transurban is able to obtain, which based on the proposal appears to be $250 million. However, this is inconsistent with the response the 95 Express team received from its sureties. We would suggest exploring further what the maximum amount of surety that can be obtained. VDOT is also exposed to Fluor-Transurban on the Capital

Beltway HOT Lanes project, which is estimated to cost approximately $900 million. While there may be some benefit to integrate the two projects, VDOT should monitor its total exposure to the members of the Fluor-Transurban team.

Financial Strength of Transurban

Transurban Limited will provide a guaranty for all Transurban operating and maintenance obligations and Transurban Holdings will guarantee all investment obligations. Given the relative size of Transurban Limited and its limited liquidity, we question whether Transurban Limited would have the adequate resources to weather lower than projected toll revenues, which could arise from such events as longer ramp up period, lower traffic or unanticipated maintenance expenses, without the support of Transurban Group. Some guarantee that Transurban Group would provide support to meet Transurban Limited's obligations would be helpful but offset by the risk that a single-asset entity is vulnerable to the success of that asset. CityLink comprises approximately 81 percent of Transurban Group's total assets with a value, net of accumulated depreciation, of $3.55 billion. Since Transurban is essentially a single-asset entity currently, if CityLink was to experience problems, there could be cash flow concerns. However, the diversification and investment in other new toll roads may also put pressure on the company's cash flow in the future.

Transurban Holdings Limited will guarantee all investment obligations of Transurban in this project. It is a much larger component of Transurban Group, holding the CityLink asset and its associated long-term liabilities and receiving strong and predictable cash flows from CityLink. Because it is highly leveraged, VDOT should seek to determine how Transurban Holdings Limited will raise the capital to provide the equity investment once the level of equity investment is determined.

In addition, VDOT is in negotiations with Transurban over the Pocahontas Parkway and working with Transurban on the Capital Beltway HOT Lanes. VDOT should monitor its exposure to Transurban.

Plan of Finance

Fluor-Transurban offer two alternatives for financing this project based on tolls placed on the HOV/HOT lanes for vehicles with less than 2 passengers. Both plans of finance are based on preliminary revenue projections that show over 25 percent average annual growth in the 2010 through 2014 period, at least 5.0 percent annual growth from 2015 through 2035 and a constant growth of 4 percent each year after 2035. The proposal does not address any capacity issues regarding the roadway. An investment grade traffic and revenue study is needed to validate the assumptions on the usage of HOV/HOT lanes and the revenues that can be generated. In addition, since the plan of finance calls for a net revenue pledge, assumptions regarding operating and maintenance expenses need to be provided. Since Transurban would be operating the same facility under either financing structure, operating and maintenance expenses should be similar, but the financing plan for each structure showed significantly different expenses in certain years. We would also like to understand why the financing plan for the tax-exempt structure were not the same as Vollmer's Base Case numbers and why different toll revenue streams and operating and maintenance expenses were used for the tax-exempt structure and the concession structure.

Fluor-Transurban's proposal to provide equity is a positive factor since it can result in a lower amount of other financing that will need to be arranged in the case of a tax-exempt structure and it also gives the private entity a larger stake in the success of the project. In addition, Fluor-Transurban's willingness to take a subordinate position also gives them a larger stake in the project. At this point, VDOT does not need to decide which financing structure to use. VDOT can decide which structure is most beneficial once results of the detailed traffic and revenue study are available. Under the concession structure VDOT can potentially receive a significantly large concession fee. However, VDOT would be losing some flexibility in using any excess revenues and losing control over this asset during the concession period. In the concession structure, it is assumed that the concession fee will be paid upfront from proceeds of the senior bank debt. If the traffic and revenue study does not support the traffic assumptions in this proposal, the $250 million fee could be less. In addition with a return on equity of 12.5 percent, and if the investment grade traffic and revenue study shows that toll revenues can support a tax-exempt structure, VDOT's lowest cost of funds would probably be the tax-exempt structure.

Risk Allocation

Fluor-Transurban is at risk for funds spend during the pre-development state until the Comprehensive Agreement is signed. VDOT would be at risk for its expenses on upfront development responsibilities. Fluor will be taking the fixed construction price and completion date risk and states that it will provide warranties and liquidated damages and will back its obligations with a parent guarantee from Fluor Corporation. Transurban Limited will provide a guaranty for all Transurban operating and maintenance obligations and Transurban Holdings will guarantee all investment obligations. In addition, Transurban as a majority investor and Fluor as a minority investor are willing to take a subordinate position in the receipt of payments.

With a net toll revenue pledge and if the investment grade traffic and revenue study can support this, VDOT will not be responsible for operation and maintenance costs. VDOT will have responsibility for the environmental approval process.

Conclusion

The proposals offer a way to expand and extend the HOV/HOT lanes in the I-95/I-395 Corridor and potentially relieve congestion on that roadway, particularly during peak travel times. Both proposals offer a way to finance the project with toll revenue bonds and TIFIA loans that would be non-recourse to the Commonwealth and VDOT. Fluor-Transurban also offers a subordinate investment in the project. A concession structure is also presented by Fluor-Transurban that would relieve VDOT from any operating and maintenance responsibility. The 95 Express team also state that it can analyze this structure once a more detailed traffic and revenue study is completed. The PPTA Advisory Panel must decide whether the cost proposed by the project teams is competitive with a traditional procurement approach, given the advantages of transferring some of the risks and potentially having the improvements completed in a shorter time period.